

WORK OPPORTUNITY TAX CREDIT Employer Guide

The Employment Development Department is the Work Opportunity Tax Credit (WOTC) certifying agency for California employers.

The Purpose of the Work Opportunity Tax Credit (WOTC)

The Small Business Job Protection Act of 1996 (Public Law 104-188) has created the Work Opportunity Tax Credit (WOTC). This program is effective from October 1, 1996, until September 30, 1997. The WOTC has two purposes:

- To promote the hiring of individuals who qualify as a member of a target group.
- To provide an incentive to employers who hire these individuals, namely, a tax credit.

When you hire an individual who meets the criteria for this program, you may be able to claim federal tax credits against wages paid.

Amount of Federal Tax Credit Provided by WOTC

For most eligible employees the federal tax credit is 35 percent of the first \$6,000 of qualified wages earned in the first 12 months of employment for a maximum credit of \$2,100. The actual amount of tax credit will depend on the employer's tax rate and the amount of wages earned.

The one exception is the federal tax credit for Qualified Summer Youth, which is 35 percent of the first \$3,000 earned within any 90 day period between May 1, and September 15, 1997. The actual amount of tax credit will depend on the employer's tax rate and the amount of wages earned.

Employee Retention Requirements

In order to claim a federal tax credit, the individual must be retained at least 180 days or have completed 400 hours of service. Employees who are Qualified Summer Youth must be employed at least 20 days or have completed 120 hours of service.

Applicable Tax Years, Carry Back, and Carry Forward

The WOTC applies to wages earned in calendar years 1996 and 1997. Employers who do not take the full credit amount of the Work Opportunity Tax Credit because of the tax liability limitation may claim a refund of all or part of the taxes paid in the last three years. This can be done by carrying back the unused credit to the earliest of the last three tax years, then to the second earliest, and so on. Credit that could not be taken in these years may be taken on future tax returns for 15 years or until the credit is all used, whichever comes first.

Empowerment Zone and Enterprise Community Tax Credits

If your business is located in a federally designated Empowerment Zone or Enterprise Community, additional tax credits may be available. Contact the California Department of Trade and Commerce for information on Empowerment Zone and Enterprise Community (EZ/EC) tax credits, or visit the EZ/EC Internet world wide web site at <http://www.ezec.gov>

Target groups that Qualify for the WOTC

Employees who begin work on or after October 1, 1996, and are in one of the following seven eligible groups can qualify an employer for the WOTC:

- Qualified recipients of Aid to Families with Dependent Children (AFDC).
- Qualified veterans receiving AFDC or Food Stamps.
- Qualified economically disadvantaged ex-felons hired no later than one year after conviction or release from prison.
- High-risk youth ages 18 through 24 who reside in a federally designated Empowerment Zone or Enterprise Community.
- Vocational rehabilitation referrals.
- Qualified summer youth ages 16 through 17 who reside in a federally designated Empowerment Zone or Enterprise Community and have not previously worked for the employer seeking this tax credit.
- Qualified Food Stamp recipients ages 18 through 24.

Designating a WOTC Agent

If you wish to authorize an intermediary, such as an accountancy firm or a management consultant, to act on your behalf in the WOTC certification process, you must provide to the EDD a notarized Power-of-Attorney. The Internal Revenue

Service (IRS) form 2848, "Power-of-Attorney and Declaration of Employer Representative" may be used for this purpose. An equivalent document acceptable by the EDD may also be used.

Determining Eligibility

You must first determine if the applicant is willing to provide the required information. Prospective employees are not required to provide information of this sort to an employer; their participation must be voluntary.

If the applicant is willing to provide the required information, have him/her complete the Work Opportunity Worksheet. A separate Work Opportunity Worksheet must be completed for each applicant.

Requesting Certification

If you believe that the applicant meets the requirements for one or two target groups based on the information provided on the Work Opportunity Worksheet, **complete all items on the IRS Work Opportunity Credit Pre-Screening Notice (form 8850)** and mail to:

Employment Development Department
Attn: WOTC Center
P.O. Box 1408
Roseville, Ca 95661

The IRS Work Opportunity Credit Pre-Screening Notice (form 8850) will serve as your request for a WOTC certification and must not show any evidence of tampering with the applicant's responses. A separate Work Opportunity Worksheet must be completed for each applicant.

Timeframe for Submitting the Pre-Screening Notice

All such notices must be completed and signed under penalties of perjury by both the employer and applicant **ON OR BEFORE THE APPLICANT IS OFFERED EMPLOYMENT** and must indicate the applicant's eligibility for a target group. The IRS Work Opportunity Credit Pre-Screening Notice (form 8850) must contain the employer's name, Federal Tax Identification Number, IRS number, and the name, social security number, employment hire date and start date of the applicant for whom certification is requested. It must be submitted to the EDD **NO LATER THAN THE 21ST DAY AFTER THE APPLICANT STARTS WORK**. Do **not** delay sending in the IRS Work Opportunity Credit Pre-Screening Notice (form 8850).

The **hire date** is the date that a definite verbal or written agreement to employ is reached between a job seeker and a prospective employer, in which an employment starting date is specified. The hire date is the one that is critical when determining timeliness of the IRS Work Opportunity Credit Pre-Screening Notice (form 8850).

Records Retention

The WOTC records, including application, pertinent documentation and supporting forms, should be retained by the employer for five (5) years from the date of the written certification from the Employment Development Department (EDD). Revoked or denied certifications must be retained for at least 1 year, but longer if further action or an appeal is pending. This time period conforms to the IRS "record retention required" for employment taxes, which specifies that records be kept for four (4) years after employment taxes are due.

The WOTC Certification

If the applicant meets all the criteria, the EDD WOTC Center will send you a WOTC Certification. If IRS Work Opportunity Credit Pre-Screening Notice (form 8850) is timely but incomplete, the EDD WOTC Center will notify you by mail and request the additional information necessary for making the WOTC eligibility determination. Otherwise, the EDD WOTC Center will send you a letter denying your request for certification and stating the reasons for the denial.

Requesting Assistance

Questions regarding how to claim the Work Opportunity Tax Credit on your federal income tax return should be directed to your regional office of the Internal Revenue Service.

For more information on WOTC go to the World Wide Web WOTC Home Page on the Internet at <http://www.edd.cahwnet.gov/wotcind>

Penalties and Reviews

There are some perjury penalties for misrepresentation. The law provides for a fine and/or imprisonment for making false statements or withholding facts. In addition, the EDD is required to take corrective action as appropriate for those employers or employees who misrepresent information on the WOTC self-attestation forms. These actions may include, but are not limited to:

- Criminal action for perjury violations.
- Expansion of the eligibility audit for additional certifications issued to an employer.
- Increased documentation required for employers with high incidence of revoked certifications.
- No acceptance of self attestations from employers with high incidence of revoked certifications.

The EDD will perform monthly reviews of 5 percent of the certifications issued in the previous 30 days to verify WOTC eligibility of the employees claimed on the certifications. All certifications found to be invalid will be revoked. A notice of invalidation will be sent to the employer and the local regional office of the IRS explaining the reason for revocation.

Federal Empowerment Zones

Empowerment Zone refers to an area or combination of areas meeting certain population, size and poverty criteria, requiring joint nomination by the local government and the State(s) in which it is located. These nominated areas can be characterized as having pervasive poverty, unemployment and general distress.

California has only one Federal Empowerment Zone (EZ) located in Los Angeles. To inquire about the applicant's specific address within the zip code, go to the EZ/EC Home Page on the INTERNET at <http://www.ezec.gov>

Only certain census tracts within the listing of zip codes are in Empowerment Zones and/or Enterprise Communities. Therefore, not all the qualified summer youth or high risk youth who reside within these zip codes are eligible for the WOTC certification. Every address within these zip codes must be verified to ensure that the applicant's residence is in fact in the Empowerment Zone. You will also find information about the Empowerment Zones on the World Wide Web EZ/EC Home Page on the INTERNET at <http://www.ezec.gov>

Los Angeles Urban Empowerment Zone Zip Codes

90001	90011	90023
90002	90012	90044
90003	90013	90059

Federal Enterprise Communities

Enterprise Communities refer to an area or combination of areas meeting certain population, size and poverty criteria requiring joint nomination by the local government and the State(s) in which it is located. These nominated areas can be characterized as having pervasive poverty, unemployment and general distress.

California has four urban and two rural Federal Enterprise Communities (EC). To inquire about the applicant's specific address within the zip code, go to the EZ/EC Home Page on the INTERNET at <http://www.ezec.gov>. Only certain census tracts within the listing of zip codes are Empowerment Zones and Enterprise Communities. Therefore, not all the qualified summer youth or high risk youth who reside within these zip codes are eligible for certification. Every address within these zip codes must be verified to ensure that the applicant's residence is in fact in the Enterprise Community. You will find more information about the Enterprise Communities on their World Wide Web EC Home Page on the INTERNET at <http://www.ezec.gov>

Urban Enterprise Communities

San Diego Zip Codes	San Francisco Zip Code	Los Angeles-South Central/Huntington Park Zip Codes		Oakland Zip Codes
92101	94103	90001	90044	94501
92103	94107	90003	90059	94601
92104	94112	90011	90061	94606
92105	94124	90037	90255	94607
92113				94608
				94621

Rural Enterprise Communities

Imperial County Zip Codes	Watsonville City and Santa Cruz County Zip Codes
92227 92231	95076